MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TRI ID 2215)

BAC2674 – TAXATION 1

(All Sections / Groups)

20 FEBRUARY 2023
9:00 a.m. – 12:00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 11 pages excluding the cover page with **FIVE** (5) Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

PART A

Mr. Wook, who is a citizen of Korea, first arrived in Malaysia to commence his six-year employment contract on 02.01.2017. An analysis of Mr. Wook's passport shows the following record of stay:

Period of stay	Place	No. of days
02.01.2017 – 31.03.2017	Malaysia	**30**
01.04.2017 – 31.05.2017	Business trip - Singapore	**61**
01.06.2017 – 31.07.2017	Malaysia	**61**
01.08.2017 – 31.12.2017	Business trip - Thailand	**153**
01.01.2018 – 15.04.2018	Malaysia	**105**
16.04.2018 – 31.05.2018	Holiday - Canada	**46**
01.06.2018 – 31.12.2018	Malaysia	**214**
01.01.2019 – 28.02.2019	Malaysia	**59**
14.04.2019 – 15.05.2019	Business trip - Indonesia	**32**
16.05.2019 – 31.06.2019	Malaysia	**32**
01.07.2019 – 30.09.2019	Business trip - Thailand	**92**
01.10.2019 – 31.10.2019	Malaysia	**31**
01.11.2019 – 06.01.2020	Holiday - Korea	**67**
07.01.2020 – 31.06.2020	Malaysia	**175**
01.07.2020 – 31.10.2020	Holiday - Indonesia	**123**
01.11.2020 – 31.12.2020	Malaysia	**61**
01.01.2021 – 31.05.2021	Malaysia	**151**
01.06.2021 – 31.07.2021	Business trip - Indonesia	**61**
01.08.2021 – 13.08.2021	Malaysia	**13**
14.08.2021 – 31.12.2021	Holiday - Korea	**140**
01.01.2022 – 31.03.2022	Holiday - Taiwan	**90**
01.04.2022 – 30.04.2022	Malaysia	**30**
01.05.2022 – 30.06.2022	Holiday – Taiwan	**61**
01.07.2022 – 31.12.2022	Malaysia	**184**

Mr. Wook left Malaysia permanently on 31.12.2022 at the completion of his employment contract.

Continued...

Required:

For Malaysian income tax purposes, assess Mr Wook's tax residence status for each of the relevant years of assessment. Explain the basis for your determination and quote the relevant provisions of the Income Tax Act 1967 (as amended).

(12 marks)

PART B

Mei Lin is the owner of a retail business. Her business accounting period ends on 31 December annually. In May 2022, one of her lorries loaded with inventory was stolen. The lorry was purchased in 2016 for RM95,000. The lorry was insured for RM85,000 (with an annual premium of RM7,000), and the inventory was insured for RM90,000 (with an annual premium of RM2,100). The insurance company was agreed to compensate Mei Lin a sum of RM130,000, of which RM54,000 was for the loss of the lorry and RM76,000 for the loss of the inventory.

Required:

Assess the tax treatment of the above situation, including the premium paid and the compensation received for the lorry and the inventory.

(8 marks)

[Total: 20 marks]

QUESTION 2

Mr. Bakar works with Sarah & Leow (SL) since 2001. SL is offering accounting, auditing, and taxation services. The following information details Mr. Bakar's income and expenses throughout the year 2022.

Employment Income and Benefits

i. A gross monthly salary of RM9,500. He contributed 9% to Employee Provident Fund (EPF).

ii. A performance bonus of 2-months' salary received in 24 December 2022.

iii. Mr. Bakar was sent to the SL branch in Philippine for 3 months (1 June 2022 to 31 August 2022) to assist the operations in the Philippine's branch. He also performed audit work to clients over there. All the reports were completed after he came back to Malaysia. He received part of his salary RM9,500 in Philippine. The other 2 months salaries were banked in to his account in Malaysia.

iv. SL employed a domestic servant for Mr. Bakar at a monthly salary of RM1,200.

vi. Travelling allowance in total of RM7,800 per annum to assist Mr. Bakar's field audit assignments.

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vii. A family medical benefits package of RM35,000 per annum.

viii. For the month of February 2022, he was provided with accommodation in Equatorial Hotel, Kuala Lumpur. The employer settled the hotel bill of RM380 per night.

Other income:

i. Interest amounting to RM525 had been credited into his Maybank savings account on 15 June 2022. It was derived from fixed deposit savings in that bank.

ii. On August 2022, Bakar received RM22,000 for the translation fees of the accounting manual book requested by Ministry of Higher Education.

Expenditure:

i. Dina, Mr. Bakar's wife is a full-time housewife. They have three children:

- First child, aged 20 unmarried and pursuing her degree in University Malaya
- Second child, aged 19, unmarried and stays at home
- Third child, aged 16 years, secondary school.

ii. Purchase of laptop amounted to RM4,500 for his children's online classes.

iii. Payment of RM400 annual subscription fee to the Institute of Internal Auditor under Mr. Bakar's name.

iv. A cash donation of RM3,000 to the approved institution.

v. His complete annual medical check-up of RM1,900.

vi. A yearly premium on medical insurance for Mr. Bakar and his immediate family of RM6,000.

vii. Zakat payment of RM8,000 had been made on 31 October 2022.

Required:

Compute Mr. Bakar's income tax payable for the year of assessment 2022. Show ALL relevant workings.

Note: You should indicate by the use of word "nil" for any item referred to in the question which no adjusting entry needs to be made.

[Total: 20 marks]

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QUESTION 3

Saujana Enterprise is a sole proprietorship owned by Mr. Farhan. It is in the business of supplying and distributing frozen foods to local and overseas markets. The business prepares its accounts to 31 December annually.

Following are the information on the business's asset:

a) A Honda HR-V acquired under a hire purchase agreement on 1 July 2021. The cash price of the motorcar was RM150,720. The company paid a deposit of RM15,000 and agreed to pay a monthly instalment of RM4,170 for 36 months, commencing on 1 August 2021.

b) Mr. Farhan bought a computer for personal use in July 2021 at a price of RM7,200. On 1 March 2022, he moved the computer to the business premise for business use and the computer was classified as business's asset. The market value of the computer on the day it was brought into business use was RM6,100.

c) Due to high demand of its products, the business decided to expand the production area. It commenced construction of 3,023 square feet of new factory building on 1 June 2020 and completed the construction on 30 July 2022.

The cost incurred for the construction is as follows:

	RM
Cost of land	58,000
Legal fee and stamp duty (20% are related to the land)	7,800
Architect's fees	15,000
Building plan approval fee	7,000
Construction costs	120,000
	207,800

601 square feet of the total floor space of the new factory building was used as an administrative office.

Required:

Compute all the relevant allowances for Saujana Enterprise up to the year of assessment (YA) 2022. Round-up all figures to the nearest Ringgit Malaysia (RM).

[Total: 20 marks]

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QUESTION 4

Adam Carpentry (AC) is owned by Mr Adam, a Malaysian tax resident. AC involves in trading, and has been in operation since 2011. Adam shared the following profit and loss statement of AC for the financial year ended 31 December 2022.

	Note	RM	RM
Sales			697,400
Less: Cost of goods sold	1		(367,298)
Gross profit			330,102
Add: Other income			
Dividend received	2	4,200	
Rental received	3	36,000	
Discount received	4	450	40,650
			370,752
Less: Expenses			
Bad and doubtful debts	5	23,800	
Depreciation		76,000	
Contribution to Employee Provident Fund		16,700	
Entertainment expense	6	18,100	
Salaries expenses	7	148,000	
Professional charges		10,700	
Leave passage	8	4,300	
Motor vehicle expenses	9	700	
Repair of shop lots		22,000	(320,300)
Net profit before taxation			50,452

Notes to the accounts:

1. Cost of goods sold included provision for inventory obsolescence of RM7,000.

2. The dividend was received from firms listed in Thailand Stock Exchange. It was credited to Adam Carpentry's bank account in Malaysia.

3. Mr. Adam rented out an apartment to his cousin and received a rental income of RM36,000 per annum.

4. A discount of RM450 was received from a supplier for early settlement of trade payable.

5. Bad and doubtful debts consisted of non-trade debt written off from the lent of sum money amounted RM9,800 to a good friend, who is also a supplier for the business. Specific provision for trade bad debts is RM3,000 and the balance of RM11,000 is general provision for trade bad debts.

Continued...

6. Details of the entertainment expenses incurred were as follows:

Entertainment allowances to employee	RM7,000
Entertainment to suppliers	RM4,000
Sponsorship for the Fun Run organized by Sport Ministry. The event was open to public.	RM5,000
Light refreshment to trade customers at the Adam Carpentry	RM2,100

7. The salary expenses included bonus of RM28,000 and salary to a physical disabled employee certified by Social Security Organization (SOCSO of RM14,000.

8. The business paid its employees an overseas leave passage to Ching Mai, Thailand under a packaged tour amounted to total of RM4,300.

9. Motor vehicle expenses included summons for traffic offences totalling RM700.

Other information:

For the year of assessment 2022, Adam Carpentry is eligible to claim capital allowances of RM56,000.

Required:

Starting with the net profit before taxation figure, compute the total income of Mr. Adam for Adam Carpentry's income for the year of assessment 2022.

Note: Indicate "Nil" where no adjusting entries are required and you are not required to explain the adjustments made in the tax computation except ed. Show all workings.

[Total: 20 marks]

QUESTION 5

Citra, Angie and Damia are good friends. Together they run a bakery in Cyberjaya since 2016. They have agreed to the following terms:

- Each partner would be entitled to RM6,000 monthly gross salary
- Each partner contributes RM60,000 and the interest of capital of 5% per annum.
- Equal profit-sharing ratio among partners.

In March 2022, Damia decided to follow her husband who received a promotion and reallocated to another country. In view of this, she decided to withdraw from the business. After a discussion, the partners agreed that Damia's last day in the business would be on 30 April 2022. Damia would also be allowed to withdraw all her investment and profit as at that date.

Continued...

The existing partnership agreement was amended to reflect the withdrawal of Damia from the business. The amended agreement takes effect on 1 May 2022 and the details are as follows:

- The remaining partners maintain an equal profit-sharing ratio.
- Each remaining partner would be entitled to a monthly gross salary of RM6,500.
- Each remaining partner contributes RM70,000 and the interest of capital of 6% per annum.

The statement of profit and loss for the year ended 31 December 2022 shows that the business had achieved a profit before tax of RM85,781. This figure was arrived at after subtracting the following items:

- Purchase of new delivery motorcycles of RM11,378.
- Depreciation of RM 8,500.
- Non-trade bad debt written off of RM1,700.

- Donation of a wheelchair to an approved old folks' home of RM 1,700.
- Donation of RM 1,500 cash to sports event approved by the relevant ministry.
- Both donations were incurred in the month of December 2022.

- Partners' salaries of RM176,000.
- Interests on partners' capital contributions RM8,600
- Payment of phone bills for Angie of RM120.

- Launch for Citra paid by business of RM2,500.
- Payment of private expenses for Damia's holiday of RM2,700.
- Quit rent for Angie's house of RM 1,000.

The business was eligible to claim capital allowance for the year 2022 of RM15,420.

Required:

Compute the total income of each partner in the business for the year of assessment 2022. Round-up your calculations to the nearest Ringgit Malaysia (RM).

[Total: 20 marks]

End of question

APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2021 onwards**

Chargeable Income	Calculations (RM)	Rate %	Tax (RM)
0 - 5,000	On the First 5,000	0	0
5,001 - 20,000	On the First 5,000		0
	Next 15,000	1	150
20,001 - 35,000	On the First 20,000		150
	Next 15,000	3	450
35,001 - 50,000	On the First 35,000		600
	Next 15,000	8	1,200
50,001 - 70,000	On the First 50,000		1,800
	Next 20,000	13	2,600
70,001 - 100,000	On the First 70,000		4,400
	Next 30,000	21	6,300
100,001 - 250,000	On the First 100,000		10,700
	Next 150,000	24	36,000
250,001 - 400,000	On the First 250,000		46,700
	Next 150,000	24.5	36,750
400,001 - 600,000	On the First 400,000		83,450
	Next 200,000	25	50,000
600,001 - 1,000,000	On the First 600,000		133,450
	Next 400,000	26	104,000
1,000,001 - 2,000,000	On the First 1,000,000		237,450
	Next 1,000,000	28	280,000
Exceeding 2,000,000	On the First 2,000,000		517,450
	Next ringgit	30	.....

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- **Reliefs for the year of assessment (YA) 2022.**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	5,000
Medical expenses for parents	8,000
1. Medical expenses for serious diseases 2. Medical expenses for fertility treatment for self or spouse 3. Vaccination expenses for self, spouse and child. (Restricted to RM1,000) 4. (i) Complete medical examination for self, spouse, child as defined by the Malaysian Medical Council (MMC). (ii) COVID-19 detection test including purchase of self-detection test kit for self, spouse, child. (Restricted to RM1,000)	8,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Takaful or Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	350
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Additional lifestyle- purchase of personal computer, smartphone or tablet for self, spouse or child	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten for a child aged 6 years and below	3,000
Qualifying domestic travel expenses	1,000
Tax relief for electronic vehicle	2,500

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- **Rebates**

Rebates	**RM**
Chargeable income not exceeding RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

- **Benefits-in-kind (BIK) scale rates as per IRB guidelines**

Cost of car when new	**Prescribed annual value of private usage of car**	**Fuel per annum**
RM	**RM**	**RM**
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car provided is more than five (5) years old, but the value of the fuel provided remains unchanged. Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

- **Other benefits**

Household furnishings, apparatus & appliances

- Semi-furnished with furniture in the lounge, dining room, or bedrooms - RM70 per month
- Semi-furnished with furniture as above and one or more of the following: Air-conditioners, curtains, carpets - RM140 per month
- Fully furnished premises - RM280 per month

Domestic servant - RM400 per month

Gardener - RM300 per month

Driver - RM600

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- **Capital Allowances and Industrial Building Allowances**

	Initial allowance Rate (%)	**Annual allowance Rate (%)**
Motor vehicles and heavy machinery	20	20
Plant and machinery (general)	20	14
Office equipment, furniture and fittings	20	10
Accelerated capital allowance (ACA) for machinery, equipment and communication technology equipment incurred between 1.3.2020 and 31.12.2021	20	40
Computer, information technology equipment & computer software	20	40
Industrial building	10	3

End of paper.